MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015 / 2016 SESSION

DAU5028 – AUDITING 2

(For Diploma Students Only)

13 OCTOBER 2015
2.30 p.m – 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 9 pages only excluding the cover page.
2. Answer **ALL** questions for section **A, B** and **C.**
3. Answers for section **A** and **B** should be shaded on the OMR sheet provided.
4. For section **B**, shade "**A**" for **TRUE** and shade "**B**" for **FALSE**.
5. For section **C**, please write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark). Answer for this section should be shaded on the OMR form.

1. Code of professional conduct is important for any profession because _____.

   A. it provides a safeguard to keep dishonest people out
   B. the need for public confidence in the quality of service of the profession
   C. it is required by federal legislation
   D. it allows licensing agencies to have a yardstick to measure deficient behavior

2. Which of the following is **NOT** an example of engagement-specific safeguard?

   A. A proper corporate governance structure with appropriate oversight and communications.
   B. Professional review by other professional accountants.
   C. Consulting third parties.
   D. Involving another firm to perform or re-perform part of the engagement.

3. Suzanne, an auditor for Maju Sdn. Bhd. found out that one delivery order for the company dated on 1 January 2014 was recorded on 31 December 2013 as credit sales. Which type of error most likely to be discovered by Suzanne?

   A. Account receivable is overstated at December 31, 2013.
   B. Operating expenses are overstated for the 12 months ended December 31, 2013.
   C. Account receivable is understated at December 31, 2013.
   D. Account receivable is overstated at December 31, 2014.

4. _____ tests are for omitted transactions or unrecorded transaction, while _____ tests are for nonexistent transactions.

   A. Tracing, vouching
   B. Verifying, tracking
   C. Vouching, tracing
   D. Tracking, verifying

Continued.....

5. The auditor's starting point for verifying disposals of property, plant, and equipment is the _____.

   A. file of shipping documents
   B. equipment account in the general ledger
   C. client's schedule of recorded disposals
   D. file of shipping documents

6. The most common audit test to verify equipment additions is to _____.

   A. perform an inventory of the fixed assets
   B. examine vendors' invoices
   C. confirm the additions with the vendors
   D. trace the vendor invoices to the cash disbursements journal

7. Which of the following items would be **LEAST LIKELY** to be paid using imprest petty cash?

   A. Office supplies.
   B. Petrol for company car.
   C. Small contributions to a local orphanage home.
   D. Monthly loan payment.

8. Which of the following is likely to be detected as part of the audit of the bank reconciliation?

   A. Failure to bill a customer.
   B. Cash received by the client after year end, but included in cash receipts in the current year.
   C. Duplicate payment of a vendor invoice.
   D. Theft of cash by intercepting cash receipts from customers before they are recorded.

9. Starbiz Sdn. Bhd. does not employ an independent share registrar, but rather issues its own share and maintains its share records. When outstanding shares are transferred from one holder to another the certificate of the selling shareholder should be _____.

   A. destroyed to prevent fraudulent reissuance
   B. canceled and attached to the certificate book
   C. retained by the selling shareholder
   D. sent to the Securities Commission Malaysia (SC)

Continued.....

10. To determine if notes payable are included in the proper accounting period, the auditor should _____.

    A. trace the cash received from the issuance to the accounting records
    B. trace the individual notes payable to the master file
    C. examine duplicate copies of notes to determine whether the notes were dated on or before the balance sheet date
    D. examine duplicate copies of notes for principal and interest rates

[TOTAL 10 MARKS]

SECTION B: TRUE/FALSE QUESTIONS (each question carries 1 mark). Answers for this section should be shaded on the OMR form. Mark "A" for the TRUE statement and "B" for the FALSE statement.

11. The role of Malaysian Institute of Accountants (MIA) Disciplinary Committee is to investigate any complaints made against its member.

12. The department approving sales transaction should be the shipping department.

13. Confirmation requests should contain a "business reply" envelope addressed to the auditors at the client's address.

14. When auditor decides there is higher inherent risk for an account, one potential effect is that more audit evidence will be required for that account.

15. One of the auditor's primary objectives when auditing manufacturing equipment is completeness.

16. The auditor's tests for proper cut-off of current year acquisitions of property, plant, and equipment are usually done as part of accounts payable cutoff tests.

17. Examples of cash equivalents include time deposits, certificates of deposit, and marketable securities.

18. Tracing outstanding checks to subsequent period bank statements tests the cut-off audit objective.

19. The board of directors must authorize the amount of the dividend per share and the dates of record and payment of the dividend.

20. When auditing the capital acquisition and repayment cycle, it is common to verify each transaction taking place in the cycle for the entire year as a part of verifying the balance sheet accounts.

[TOTAL 10 MARKS]

Continued.....

SECTION C: STRUCTURED QUESTIONS (80 MARKS)

Answer ALL questions. Answers should be written on the answer booklet provided.

QUESTION 1

Part A

(a) "The International Federation of Accountants (IFAC) conceptual framework for applying the fundamental ethical principles is essentially a principle-based approach. The framework for ethical compliance requires the professional accountants to identify, evaluate, and address any threats to compliance with the fundamental principles."

Required:

Explain **FIVE (5)** types of threats to compliance. **(10 Marks)**

(b)

Samuel is an auditor for Lili & Co. After accepting an engagement, Samuel discovers that the client's industry is more technical than he realized and that he is not competent in certain areas of the operation.

Required:

Suggest **TWO (2)** options for Samuel to deal with the situation. **(2 Marks)**

(c) "Provision of non- assurance services may create threats to the independence of the auditor. Prior accepting an engagement to provide such services to an assurance client, a determination shall be made whether the provision of such services creates a threat to independence. "

Required:

List **THREE (3)** examples of non-assurance services. **(3 Marks)**

Part B

Syarikat Ceria Indah Berhad engages in paint manufacturing business in Batu Berendam, Melaka and is a well-known and highly profitable company.

Required:

(a) Define related party transaction. **(2 Marks)**

Continued.....

(b) Determine whether the following entities are a related party to Ceria Indah Berhad.

i. Ceria Indah Berhad owns a 40 percent interest in Relight Colour Berhad in Johor.

ii. Ceria Stylista Berhad is a company formed through a joint venture between to Ceria Indah Berhad and Stylish Berhad.

iii. Jaya Superpaint Sdn. Bhd. is a company owned by Lily Ellen who is a Chief Executive Officer (CEO) of Ceria Indah Berhad.

(3 Marks)

[TOTAL 20 MARKS]

QUESTION 2

Part A

Herman Stationeries manufactures and sells stationeries; they have been trading for over 20 years and the company's year-end is 30 September 2014. Herman Stationeries sells products to trade customers via its own website; which represents 60% of revenue. Remaining revenue is generated by contracts to supply stationeries to hotels. Below is a description of the sales system.

Hotel revenue

The hotel revenue is made up of four key customers. Herman Stationeries has one sales clerk, Jessie, who maintains all aspects of this revenue stream; Jessie receives customer orders, issues sales invoices and processes payments. In issuing invoices, the sales system automatically inserts the online trade customer prices for products. However, each hotel customer has contracted prices which are lower than the online prices and hence Jessie manually edits the invoices prior to shipment.

Online revenue

New trade customers are set up in the sales ledger master file upon passing suitable credit checks, and a credit limit is set at this stage by the credit manager. Customers place online orders up to their pre-set credit limit; they receive an email confirmation and the sales order interfaces into the shipping system. The order number is linked to the customer account number. Goods are shipped daily with a delivery order which is referenced to the sales order number but are not sequentially numbered.

Continued.....

Trade customers' sales invoices are automatically generated by the system on the day the online order is placed. The prices are inserted in accordance with the website rates. Occasionally Herman Stationeries makes special offers or discounts sales; when this occurs, the master file data for sale prices has to be amended to ensure that the correct prices are used on invoices. This task is usually performed by sales ledger clerk.

Revenue and receivables records

The company did not send monthly statement to their customers and only reconciles the sales ledger control account at the end of September in order to verify the year-end balance.

Required:

As the external auditor of Herman Stationeries,

(a) Identify and explain any **THREE (3)** deficiencies or weaknesses in the sales system.

(9 Marks)

(Note: You may use the table format as presented below to write your answer)

Deficiency / Weakness	Explanation

(b) Suggest **TWO (2)** internal controls that the company may use to strengthen the company's sales system.

(5 Marks)

(Note: You may use the table format as presented below to write your answer)

Internal Control	Explanation

Continued.....

Part B

Explain the following substantive test of transaction in sales and collection cycles.

(a) Cut-Off
(b) Completeness
(c) Accuracy

(6 Marks)
[TOTAL 20 MARKS]

QUESTION 3

(a) Please refer to the table below, fill in the blanks with the most appropriate answer.

debit memo	payment voucher	supplier letter	accuracy	bill of lading
receiving	purchase order	remittance advice	aged trial balance	timeliness
negative confirmation	requisitioning	occurrences	receiving report	credit memo
completeness	supplier statement	positive confirmation	subsidiary ledger	vendor order

1. A document indicating a reduction in the amount owed to a supplier because of returned goods is _____.

2. After a purchase requisition is approved, a _____ must be initiated to purchase the goods or services.

3. When the auditor is determining whether the client followed a consistent depreciation policy from period to period, and the client's depreciation calculations are correct, the balance-related audit objective of _____ is being determined for depreciation expense.

4. A key internal control over the acquisition cycle is to ensure that the company requires recording transactions as soon as possible after the goods and services have been received. This satisfies the transaction-related audit objective of _____.

5. Receipt of ordered materials by the receiving department will generate the completion of a form called the_____.

Continued.....

6. A letter, addressed to the customer, requesting a response only if the recipient disagrees with the amount of the stated account balance is called _____.

7. _____ is sent monthly by the supplier to indicate the beginning balance, current period purchases, payments and the ending balance.

8. _____is frequently used by the company to control payment for acquired goods and serves as the basis for recording a supplier's invoice in the voucher register or purchases journal.

9. The _____function is responsible for receiving, counting and inspecting goods received from suppliers.

10. A_____ contains information regarding which invoices are being paid by the customer.

(10 Marks)

(b) Identify any **TWO (2)** substantive analytical procedures to test account payable. What potential errors or fraud can be identified by each analytical procedure?

(4 Marks)

(Note: You may use the table format as presented below to write your answer)

Substantive Analytical Procedure	**Potential error or fraud**

(c) Property, plant and equipment are defined in MFRS 116 as "tangible assets that are held by an enterprise for use in the production or supply of goods or service, for rental to others, or for administration or maintenance purpose; and are expected to be used for more than one accounting period."

Required:

Explain the following test of accounts balances in auditing Property, Plant and Equipment.

i. Disposal **(2 Marks)**
ii. Ownership **(2 Marks)**
iii. Depreciation **(2 Marks)**

[TOTAL 20 MARKS]

Continued.....

QUESTION 4

(a) Stanley & Co. is auditing the financial statements of Lee Wholesaling and is about to perform substantive audit procedures on Lee's cash account balances. The auditor obtain a copy of the bank reconciliation schedule, a standard letter to request information from financial institution and subsequent period bank statements to examine the cash account balances.

Required:

(i) Why does an auditor obtain subsequent period bank statement when auditing a bank account? **(2 Marks)**

(ii) What information is examined on the subsequent bank statement? **(2 Marks)**

(b) Explain the substantive test of transaction to ascertain the completeness of cash transaction in cash receipt and cash disbursement.

(Note: You may use the table format as presented below to write your answer)

Assertion	Substantive test of transaction for Cash Receipt	Substantive test of transaction for Cash Disbursement
Completeness		

(4 Marks)

(c) List **FOUR (4)** types of statutory records commonly used in statutory audit. **(4 Marks)**

(d) "Any company with shares that is listed on the Bursa Malaysia is required to engage a share registrar as a control to prevent the improper issue of share certificate."

Required:

Explain **FOUR (4)** duties of a share registrar. **(8 Marks)**

[TOTAL 20 MARKS]

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